

NOTE: These minutes were approved and executed at the November 22, 2013 Independent Investment Committee meeting.

**Independent Investment Committee
October 18, 2013**

Public Minutes

**New Hampshire Retirement System
54 Regional Drive
Concord, NH 03301**

Committee Members: Harold Janeway, *Chair*; David Jensen; Patrick O'Donnell; Catherine Provencher; and Hersh Sosnoff.

NHRS Trustees: Dick Gustafson, Ph.D.; and Germano Martins.

Staff: George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance*; Jeff Gendron, *Investment Officer*; and Scott Needham, *Investment Analyst*.

NEPC, LLC: Kevin Leonard, *Partner and Senior Consultant*; Sean Gill, *Partner*; Jeff Markarian, *Senior Research Consultant*; and Phillip Nelson, *Research Consultant*.

Mr. Janeway called the meeting to order at 9:04 a.m.

Mr. Janeway surveyed the Committee for comments on the draft public minutes of the September 20, 2013 Investment Committee meeting. As there were none, a motion to approve the public minutes of the September 20, 2013 Investment Committee meeting was made by Mr. Jensen and seconded by Mr. O'Donnell. The motion carried unanimously.

Mr. Johansen provided a brief update on the returns of the Marketable Investments portfolio through September 30, 2013. For the three-month fiscal year-to-date period ending September 30, 2013 the Marketable Investments portfolio returned 5.5%, underperforming the return of its custom benchmark of 5.6% by 10 basis points. The 1-year return through September 30, 2013 for the Marketable Investments portfolio was 14.8%, 100 basis points above the 13.8% return of the custom benchmark. The 5-year return of the Marketable Investments portfolio through September 30, 2013 was 9.5%, 70 basis points ahead of the custom benchmark return of 8.8%.

The Committee briefly discussed the performance of the Wellington Emerging Markets Local Equity (“EMLE”) Fund in which the System invests. The EMLE Fund has recently experienced short-term relative underperformance as some of its underlying consumer-focused stocks have struggled. Since the System’s initial investment in the EMLE Fund, it has returned 1.8%, outperforming the -4.4% return of its benchmark by 620 basis points.

Mr. Johansen referred to the “Six-month Investment Work Plan” dated September 24, 2013. He noted that the work plan for the 3rd quarter of Fiscal Year 2014 has been added for the Committee’s consideration. He commented that the work plan remains flexible and subject to change as the Committee deems appropriate. A motion was made by Mr. O’Donnell and seconded by Mr. Sosnoff to approve the investment work plan for the 3rd quarter of Fiscal Year 2014, with the inclusion of a macro economically-focused meeting in January 2014. The motion carried unanimously.

Mr. Johansen referenced the “Proposed 2014 Investment Committee Meeting Schedule” memo dated September 24, 2013. The Committee agreed to review the proposed schedule in advance of a vote at the November Committee.

Mr. Johansen referred to NEPC’s NHRS Transition Manager Pool memo dated October 9, 2013. The Committee discussed the System’s current stable of transition managers and those proposed as replacements in the memo, as well as the reasons behind the recommendation to update the group. A motion was made by Mr. Jensen and seconded by Mr. Sosnoff to update the System’s pool of transition managers by replacing ConvergeX Group and Northern Trust with Abel/Noser Corp. and Bank of New York Mellon. The motion carried unanimously.

Mr. Johansen and Mr. Gill provided a brief introduction of growth equity private equity manager Pine Brook. They briefly explained the firm’s strategy, process and the performance of the firm’s prior fund. In response to questions from the Committee, Mr. Gill described the fees associated with an investment in Pine Brook Capital Partners II, LP (“Fund II”), and the more LP “friendly” differences between Fund II’s fees and those of the firm’s predecessor fund. He also discussed Pine Brook’s competition in the private market energy and financial services investment arena.

Mr. Howard Newman, President and Chief Executive Officer; and Mr. Joe Gantz, Managing Director and Chief Operating Officer, of Pine Brook presented an overview of their firm and the opportunity to invest in Fund

II. They referred to the “New Hampshire Retirement System” presentation dated October 2013.

In response to questions from the Committee, Mr. Newman commented that the ability to stop financing portfolio companies that are not meeting expectations is a key tenet of Pine Brook’s “line of equity” funding structure. He noted that Pine Brook would prefer to walk away from such companies and realize a loss on their initial investment rather than put additional capital at risk.

Responding to additional questions from the Committee, Mr. Newman indicated that Pine Brook views initial public offerings (“IPO”) as financing events rather than exit opportunities when the firm believes that the underlying portfolio company will increase in value after the IPO. He commented that Pine Brook assigns two of the firm’s partners to each portfolio company transaction, and carefully monitors its partners’ workloads. He described the firm’s ownership structure; compensation practices; and culture, as it relates to investment professional recruiting efforts.

In response to Committee questions, Mr. Newman described Pine Brook’s due diligence process. He reviewed the firm’s investment sourcing experiences and discussed portfolio company management team changes that Pine Brook has initiated. He described the risks inherent in investing in the energy and financial services sectors, and the risk management disciplines Pine Brook employs in its investment process.

Mr. Janeway entertained a motion to convene into non-public session under RSA 91-A:3, II(d) for the purpose of considering the acquisition, sale or lease of real or personal property which, if discussed in public, would likely benefit a party or parties whose interests are adverse to the general community. A motion was made by Mr. Jensen and seconded by Mr. O’Donnell to enter into non-public session, in accordance with the aforementioned provision.

Roll call vote:

Aye: Mr. Janeway, Mr. Jensen, Mr. O’Donnell, Ms. Provencher and Mr. Sosnoff.

Nay: None

Motion carried.

The Committee discussed the Pine Brook presentation and the opportunity to invest in Fund II. The Committee also discussed the

emerging markets equity portfolio managed by Batterymarch Financial Management (“Batterymarch”) and the core non-U.S. equity portfolios managed by Fisher Investments (“Fisher”) and Thornburg Investment Management (“Thornburg”).

A motion was made by Mr. Jensen and seconded by Mr. O’Donnell to conclude non-public session.

Roll call vote:

Aye: Mr. Janeway, Mr. Jensen, Mr. O’Donnell, Ms. Provencher and Mr. Sosnoff.

Nay: None

Motion carried.

A motion was made by Mr. Sosnoff and seconded by Mr. O’Donnell to commit \$50 million to Pine Brook Capital Partners II, LP, subject to contract and legal review. The motion carried unanimously.

The Committee agreed to request presentations from Batterymarch, Fisher, and Thornburg at the November Committee meeting.

Mr. Johansen referenced the “Draft Fiscal Year 2013 Comprehensive Annual Investment Report”. He asked that the Committee review the draft report and provide any comments or feedback to him directly in advance of the November meeting. The Committee requested a couple of minor changes to the report, and agreed to provide any additional comments that they have to Mr. Johansen. He noted that the Committee will vote to approve the report at the November Committee meeting for recommendation to the Board of Trustees at the December Board meeting.

Mr. Nelson referred to the “Unconstrained Fixed Income Manager Review” presentation dated October 18, 2013. The Committee discussed the presentation and the opportunity to invest in the unconstrained fixed income space.

In response to questions from the Committee, Mr. Nelson commented that the products contemplated in the presentation are designed to have limited return volatility and a reduced level of interest rate risk compared to traditional fixed income strategies, and would serve to complement the existing NHRS fixed income portfolio while providing a diversification benefit.

At the request of the Committee, NEPC agreed to produce a statistical comparison of the System's aggregate fixed income portfolio against those of the strategies contemplated in the presentation, for the November Committee meeting. The Committee also requested that NEPC present an analysis of the investment opportunity presented by unconstrained fixed income strategies in the context of NEPC's 5-7 year capital market expectations.

On a motion by Mr. Jensen, seconded by Mr. O'Donnell, the meeting adjourned at 12:04 p.m.